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Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 ADP-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 NSC-10 SS-15 STR-08 CEA-02 H-03

L-03 DODE-00 PA-03 USIA-15 PRS-01 PM-07 TAR-02 INT-08

RSR-01 /177 W
---------- 101935
R 311825Z JUL 73
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 8304
INFO USMISSION EC BRUSSELS
USMISSION OECD PARIS

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E.O. 11652: N/A
TAGS: ECON, EFIN, BE
SUBJECT: BALANCED BUDGET

REF: BRUSSELS 4259

1. SUMMARY: AFTER INTENSIVE TWO DAY SESSION, CABINET EMERGED WITH GOB ORDINARY BUDGET WHICH MINISTERS DESCRIBED AS BALANCED AND NON-INFLATIONARY. END SUMMARY.

2. AS REPORTED REFTEL, GOB CABINET HAS BEEN BUSY TRIMMING ORIGINAL MINISTERIAL BUDGET SUBMISSIONS TO FIT PRIME MINISTER'S OBJECTIVE OF HOLDING EXPENDITURES INCREASE TO 11 PERCENT. AFTER TWO DAYS OF INTENSIVE WORK, PRIME MINISTER ANNOUNCED THAT 1974 GOB ORDINARY BUDGET WILL BE BALANCED WITHOUT NEW TAXES AT BF 472.7 BILLION AND THAT 11.7 PERCENT INCREASE OVER 1973 BUDGET WILL NOT BE INFLATIONARY SINCE 1974 GNP GROWTH IS ESTIMATED AT 11.5 PERCENT.

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3. THIS DESCRIPTION MET WITH SOME SKEPTICISM IN PRESS, WHICH

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POINTED TO SOME OF DEVICES USED TO BRINGING BUDGET INTO BALANCE AND WITHIN 11.7 PERCENT INCREASE:

A. CONTRIBUTIONS TO EEC BUDGET ARE EXCLUDED FROM GOB ORDINARY BUDGET EXPENDITURES FOR 1974.

B. INCREASE OF 11.7 PERCENT BASED ON COMPARISON TO ADJUSTED (UPWARD TO BF 423 BILLION) 1973 BUDGET RATHER THAN TO ORIGINAL 1973 BUDGET, WHICH WOULD HAVE YIELDED INCREASE OF 16.2 PERCENT OR, INCLUDING CONTRIBUTIONS TO EEC, OF ABOUT 17.5 PERCENT.

C. ESTIMATES OF 1974 RECEIPTS ARE OPTIMISTIC, BASED ON 11.5 PERCENT GNP INCREASE AND ASSUMPTION OF IMPROVED TAX COLLECTION (ANTI-FRAUD).

PRESS DOES, HOWEVER, ACKNOWLEDGE THAT CONSIDERABLE EFFORT HAS BEEN MADE TO AVOID INFLATIONARY BUDGET.

4. DETAILED BUDGET FIGURES NOT YET AVAILABLE, BUT IT APPEARS THAT LARGEST CUTS IN MINISTERIAL BUDGET SUBMISSIONS WERE IN EDUCATION, SOCIAL SECURITY, AND FONDS DES COMMUNES, DEFENSE BUDGET SUBMISSION WAS CUT BY BF 725 MILLION AND AID SUBMISSION BY ONLY BF 100 MILLION.

5. WHILE NO NEW TAXES WERE ANNOUNCED, COMING INTO EFFECT OF BENELUX EXCISE TAX HARMONIZATION NEXT YEAR WILL IN FACT RAISE EXCISE TAXES ON CIGARETTES AND BEER WHICH SHOULD YIELD AN ADDITIONAL BF 1.3 BILLION. RECEIPTS WILL ALSO BE INCREASED BY YEAR'S DELAY IN "DETAXATION" OF INDUSTRIAL INVESTMENTS (WHICH SCHEDULED IN 1972 AS PART OF TRANSITION TO TVA), YEAR'S DELAY IN PAYMENT OF CERTAIN INVESTMENT SUBSIDIES, AND GOB'S RECENT DECISION TO BEGIN TAXING SEMI-GOVERNMENTAL CREDIT INSTITUTIONS, AT NORMAL CORPORATE INCOME TAX RATE OF 42 PERCENT.

6. EXTRAORDINARY BUDGET (LARGELY GOB CAPITAL EXPENDITURES) IS SET AT BF 117 BILLION, UNCHANGED FROM ORIGINAL 1973 BUDGET ESTIMATE.

7 COMMENT: EVEN TAKING INTO ACCOUNT USUAL CAMOUFLAGE,
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1974 BUDGET PREVISIONS SEEM REASONABLY RESPONSIBLE IN FACE OF PRESSING INFLATIONARY PROBLEM. HARDEST HIT BY BELT-TIGHTENING IS PROBABLY INDUSTRIAL INVESTMENT, BUT THIS MAY BE APPROPRIATE CYCLICAL MEASURE, GIVEN INCREASING PRIVATE CAPITAL INVESTMENT.
BOOCHEVER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 31 JUL 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973BRUSSE04408
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: BRUSSELS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t1973073/aaaaabsq.tel
Line Count: 112
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 73 BRUSSELS 4259
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 06 SEP 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <06-Sep-2001 by smithrj>; APPROVED <05-Nov-2001 by golinofr>
Review Markings:

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US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BALANCED BUDGET
TAGS: ECON, EFIN, BE
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

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